

NCUA News

BOARD ACTIONS - NOVEMBER 19, 1998

Operating Fee Assessment Rate is Unchanged

The NCUA Board voted to retain the current operating fee assessment rate while increasing the 1999 NCUA budget by 11.6 percent, to \$121.96 million. A major portion of the budget increase is tied to adding 29 positions and increasing employee compensation in an attempt to make NCUA pay comparable to fellow financial regulatory agencies.

"This budget increase is necessary to meet the agency's aggressive goals for 1999, and to provide the resources required to hire and keep competent staff," commented NCUA Chairman Norman E. D'Amours. "The NCUA must stay competitive if we are to continue to retain the best and the brightest," he said.

The new positions will place one additional economic development specialist in each region to assist the continuing development of smaller credit unions. Each region will also gain an insurance analyst to meet anticipated needs in chartering and expansion activity when the new chartering and field of membership guidelines become final.

"As regulator, NCUA must rightfully focus on where the need is within the credit union system. Credit unions at \$5 million and under make up 50 percent of the industry," commented D'Amours.

"Placing more emphasis on the small credit union programs in each region and at the central office is a necessary and reasonable step forward."

Year 2000 computer issues also remain a major priority for the agency. Direct and indirect costs for Year 2000 efforts in 1999 are estimated to be \$16.4 million.

Operating Fee Unchanged

The NCUA Board voted to retain the current operating fee assessment for 1999 based on the net amount needed to cover operating costs for the agency next year. NCUA was able to increase the agency's 1999 budget, while holding the line on the operating fee assessment, primarily due to the higher growth rate of federal credit union assets and fewer conversions to state-charter in 1998, a sizable budget surplus in 1998, and less capital acquisitions budgeted for 1999.

The operating fee will be assessed to federal credit unions based on December 31, 1998, year-end assets. The asset dividing points on the fee scale will be adjusted by 5.5 percent to reflect the estimated increase in federal credit union assets at year end.

CU Service Organization Amendments Proposed

The NCUA Board issued a proposal, with a 90-day comment period, to reduce the restrictions and regulatory burden of Part 712, the Credit Union Service Organization (CUSO) rule.

Recommended changes to CUSO investment and loan provisions include:

- Removing the restriction on FCUs' co-investing in a CUSO with other financial institutions;
- Increasing the amount CUSOs can invest in other service providers to the amount necessary to obtain a reduced

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NCUA Executive Director Carolyn Jordan focused primarily on four objectives in preparing the NCUA's 1999 budget for Board approval.

- *Stabilize NCUA examiner recruitment and retention by addressing pay comparability, quality of life and systems issues;*
- *Increase the agency's emphasis on providing additional assistance to small credit unions;*
- *Improve customer service, especially when credit unions request field of membership changes, charter conversions, and for groups organizing new charters; and*
- *Refocus agency systems and processes to meet the external demands of HR 1151 and Year 2000 and the internal demands of helping examiners meet their mission.*

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News Briefs

- **Comment Period Extended on MBL Interim Rule** — Credit unions now have until January 29, 1999, to provide comments on the interim final rule change to member business loans. Set to expire November 30, the comment period was extended 60 days.
- **Chartering Manual Comments** — NCUA received 367 comments on the proposed Chartering and Field of Membership policy. A breakdown of respondents follows:
 - 181 federal credit unions;
 - 72 banks;
 - 30 credit union leagues;
 - 30 bank trade associations;
 - 23 state credit unions;
 - 20 credit union members;
 - 4 credit union trade associations;
 - 2 Congressmen;
 - 2 law firms; and
 - 1 credit union sponsor, CPA, consultant, trade advocacy group, and an individual.

Staff has reviewed the comments and it's expected the final rule will be considered by the NCUA Board at its December 17 open meeting.

- **106th Congress** — The first session of the 106th Congress convenes in January 1999. Additional Y2K legislation is expected to be introduced.
- **CLF Activity** — The Central Liquidity Facility earned \$3.11 million or an annualized 4.79 percent during September and paid third quarter dividends of \$10.3 million to members October 1, 1998. The CLF has 7 guaranteed lines of credit agreements outstanding totaling over \$7 million.
- **Report of Officials** — A revised, automated Report of Officials form will be released with December call report material to credit unions. Automating the form will aid in the collection, retrieval and management of this information.
- **Empowerment 2000 Workshops in '99** — Based on need and the excellent evaluations from this year's program, the Office of Community Development Credit Unions is now preparing to schedule Empowerment 2000 workshops in various locations in 1999.

- **NCUSIF Activity** — The National Credit Union Share Insurance Fund equity level declined to 1.29 percent as of October 31, 1998 after 11,171 dividend checks totaling nearly \$118 million were issued.
- **Credit Union Failures** — Thirteen credit unions have failed thus far in 1998. Ten were involuntary liquidations and three were merged with assistance. The cost of failures through October 31, 1998 was \$2.7 million.

Proposed Agenda for December 17 Board Meeting

- Final Chartering and Field of Membership Policy;
- Final Real Estate Lending rule, Part 701.21(g);
- Final Eligible Obligations rule, Part 701.23;
- Proposed small credit union program;
- Proposed "Know Your Customer" rule;
- Proposed Supervisory Committee rule; and
- Interest rate for 1999 Community Development Revolving Loan Program.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

Robert E. Loftus, *Director,*
Office of Public and Congressional Affairs
 Cherie Umbel, *Editor*
 Lesia Bullock, *Contributing Writer*
 Barbara Walker, *Graphics*

National Credit Union Administration
 1775 Duke Street
 Alexandria, VA 22314-3428

CAPITOL HILL NEWS

House Republicans Choose Leaders, Committee Assignments

Although the 106th Congress does not officially convene until January, many members were back in Washington in mid-November to participate in orientation for new members, and on the Republican side, to elect new leaders.

With the resignation of House Speaker Newt Gingrich, Bob Livingston of Louisiana, currently chairman of the House Appropriations Committee, was unanimously elected speaker-designate. Reps. Dick Armey and Tom DeLay retained their posts as House majority leader and majority whip respectively. Joining the leadership team as conference chairman is Rep. J.C. Watts of Oklahoma.

As expected, current House Banking Committee Chairman Jim Leach of Iowa will continue as chairman in the 106th

Congress. Also, the committee will add seven new Republican members — Reps. Paul Ryan of Wisconsin, Doug Ose of California, John Sweeney of New York, Judy Biggert of Illinois, Lee Terry of Nebraska, Mark Green of Wisconsin and Pat Toomey of Pennsylvania. The new Chairman of the VA-HUD Appropriations Subcommittee will be James Walsh of New York. In the 105th Congress, Rep. Walsh was an early co-sponsor of H.R. 1151.

Democrats will not officially select their leaders and designate committee assignments until December 10 and 11. However, it seems certain that the current ranking member of the Banking Committee, Rep. John LaFalce of New York, will retain that position.

BOARD ACTIONS

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- price for goods or services;
- Allowing FCUs to invest in CUSO debentures; and
- Clarifying how NCUA measures the limit on FCU investments or loans to CUSOs.

Recommended language in the proposal states, "An FCU may invest in or loan to a CUSO by itself, with other credit unions, or with non-credit union parties."

NCUA wants to permit CUSOs to increase the amount invested in a service provider beyond minimum requirements to enable CUSOs to obtain an economic advantage on the goods or services they receive. This provision is not intended to provide independent investment authority.

NCUA is proposing to eliminate a provision that prohibits an FCU from investing in the debentures of a CUSO structured as a corporation. The provision that limits an FCU's investment in a limited liability company to membership is deleted because it is unnecessary.

The proposal also clarifies that generally accepted accounting principles (GAAP) must be used when FCUs account for investments in and loans to a CUSO, both for regulatory limitations under Section 712.2 and for financial statement amounts under Section 712.

Interim Final Charter Conversion Rule Issue

In compliance with the *Credit Union Membership Access Act*, the NCUA Board issued an immediately effective interim rule change to Part 708a. The change simplifies and reduces the regulatory burden for credit unions that choose to convert to another type of financial institution.

The new rule implements provisions in the Membership Access Act that stipulate an insured credit union may convert to a mutual savings bank or mutual savings institution without the prior approval of NCUA. In addition, the rule establishes and defines Act provisions requiring that NCUA administer the member-

ship vote. The vote must also be verified by the federal or state agency that will have jurisdiction over the institution after conversion.

Provisions in the rule also stipulate that directors and senior management officials of a credit union may not receive economic benefit over and above ordinary compensation and benefits from the conversion of their credit union.

The board of directors must approve the proposal to convert by a majority vote and a majority of the voting members must sanction the conversion. Interested parties have 90 days to comment on the interim rule.

Charter Conversions and Modifications

The NCUA Board approved a community charter conversion for \$16.6 mil-

lion **Hallco Federal Credit Union**. The occupational-based credit union is converting to a community-based charter to serve the people who live, work, worship, or attend school, and businesses and other legal entities located in Hall County, Ga., and low-income White County, Ga.

The NCUA Board also approved a request from **Worcester Central Federal Credit Union** to convert from a multiple-group to a community charter. The \$119.3 million credit union gained approval to serve 23 contiguous municipalities within Worcester County, Mass.

Eastern Corporate Federal Credit Union gained NCUA Board approval to expand to serve a national field of membership. This expansion marks the third federal corporate to gain a national field of membership.

1999 OPEN NCUA BOARD MEETINGS

DATE	DAY	TIME	PLACE
1/28/99	Thursday	10:00 am	Alex, VA
2/24/99	Wednesday	1:00 pm	Alex, VA
3/18/99	Thursday	10:00 am	Alex, VA
4/15/99	Thursday	10:00 am	Alex, VA
5/19/99	Wednesday	10:00 am	Alex, VA
6/24/99	Thursday	10:00 am	Alex, VA
7/22/99	Thursday	10:00 am	Alex, VA

NO AUGUST MEETING

9/16/99	Thursday	10:00 am	Alex, VA
10/06/99	Wednesday	1:00 pm	Alex, VA
11/18/99	Thursday	10:00 am	Alex, VA
12/16/99	Thursday	10:00 am	Alex, VA

Board meeting dates are tentative and changes may occur. Updated Board meeting schedules will be provided on our web site and announced in the *NCUA News* when time permits.

Open meetings offer credit union, league, and trade officials the opportunity to witness the NCUA Board take regulatory and policy actions that directly affect the credit union movement.



Empowerment 2000: Focusing on the Needs of Small Credit Unions

Serving The Underserved

NCUA's free two-day training workshops for small credit unions, dubbed "Empowerment 2000," were so popular with participants that the demand for additional education was swift and overwhelming.

For many of the 315 attendees in St. Louis, Phoenix and Miami, it was a rare opportunity to meet and exchange notes and experiences with others from similar sized credit unions from around the country.

The main attraction for the "Empowerment 2000" workshop attendees was the unusually packed program from which to choose. The two-day agenda covered a myriad of timely issues, including: Analyzing Financial Statements, Strategic and Business Planning, The Dos and Don'ts of Lending, Investments and Asset Liability Management, Year 2000 Computer Challenges, Chartering and Field of Membership Requirements, and Cultivating a Board of Directors, just to name a few.

Of the total 315 credit union participants at the three workshops, 126 had their travel and hotel expenses paid for by NCUA. The agency used the funds left over from donations collected by the National Association of Credit Union Chairmen in 1996 to provide similar assistance for small credit unions to attend the "Serving the Underserved" Conference in Chicago.

"I have never attended a more informative workshop as this one was," commented S. Lynn Dogan, manager of \$2.26 million Kaiser Employees CU, in Baton Rouge, who received a stipend from NCUA to attend the workshop in Miami. "Many times in this world when someone gives you something free it means whatever is being given will not be quite as good as when you would have paid for it. Not in this case... Everything was top-notch," Dogan said.

Within days after the final workshop in Miami, NCUA Board members had received numerous letters of thanks and requests to continue the educational sessions, which were organized by NCUA's Office of Community Development Credit Unions and Office of Training and Development.

"The workshops were very beneficial to me and I came back with not only knowledge, but also a feeling that NCUA really cares about small credit unions. I do hope that these workshops can be held every two years," wrote Urla Price, CEO of \$3 million Episcopal Community FCU, in Los Angeles.

"The workshop overall was fabulous and the networking was great. I have been in the credit union movement for over 22 years," wrote Jeannette Wells, CEO of Eastalco FCU. "There was a lot of information to obtain and I felt that I needed to attend every Track," she said.

Perhaps the biggest surprise was the exuberant representation of personnel from credit unions in Puerto Rico, the Virgin

Islands, Bahamas, and Trinidad. Many in the international contingent had never been to any credit union event in the States, and their enthusiasm at being included was obvious.

More Workshops Budgeted for 1999

The NCUA Board approved the Office of Community Development Credit Union's request to hold three regional workshops for small credit unions during 1999. The sites will be chosen soon and more details will follow. Chicago, Phoenix and Miami are being considered.

The Board also approved the addition of six Economic Development Specialists, one for each regional office. This will bring the total number of specialized examiners to 12 who specifically focus on the needs of credit unions with assets of \$5 million and under.

"I received numerous letters from attendees expressing their gratitude for having this free training opportunity and asking for it to continue," noted Chairman D'Amours.

"I'm glad the Board was as impressed as I by the overwhelming desire of small credit union managers and directors to secure this type of education and follow-up advice from our economic development specialists. These specialized examiners are meeting a real need and are terrific ambassadors for this agency," said D'Amours.



NEIGHBORHOOD TRUST FCU

A Start-Up Spreads It's Wings

Neighborhood Trust FCU, at \$1.8 million in assets, is achieving a major milestone this winter. Nearly two years and 1,300 members since it secured its charter from the National Credit Union Administration, the low-income credit union is about to undertake a major step for its largely immigrant community in New York City's northern section of Manhattan.

"We're serving notice to the loan sharks. Your days of preying on this community are numbered," exclaimed Mark Levine-Suarez, president of the board. His exhilaration at this thought is obvious, and for good reason.

Levine-Suarez, manager Mario Alba, and the staffs of Neighborhood Trust FCU and its sponsor Credit Where Credit Is Due, Inc., are surrounded by about 100 well-wishers. The credit union was recently awarded a \$210,000 grant from the Community Development Financial Institutions Fund. The group is celebrating. The money, according to Levine-Suarez, will help Neighborhood Trust FCU continue making loans to entrepreneurs who have no where else to secure start-up financing.

Two-thirds of Neighborhood Trust FCU's borrowers had gone to loan sharks for loans prior to the credit union's opening in March of 1997. The credit union charges 14 percent interest on signature loans, versus the loan sharks who charge 5 percent per week, according to Levine-Suarez, a former public school teacher. Short-term loans from \$500 to \$5,000 are also offered to compete with the pawnshops, known to residents in the predominantly Spanish-speaking neighborhoods as "prestamistas."

"Credit unions like this one are uniquely positioned to compete with the likes of loan sharks, pawn shops, check-cashers and rent-to-own stores. I wish you much continued success," NCUA Chairman Norman D'Amours told the gathering. "I firmly believe that if you educate people about all the choices available to them, they will make the right choice. Educate. Teach. This is the founding philosophy of the credit union movement," D'Amours said.

A Neighborhood in Need of Education

"The entrepreneurial spirit is alive and well in this community," said D'Amours, noting that the credit union's Ft. Washington Street entrance at the George Washington Bridge Bus Terminal, is in the center of an endless row of legal and medical offices, grocers, barber shops and other local merchants. There are also pawn shops and check-cashing stores on this street and every other street in the 3-square-mile area known as Washington Heights. Eighty percent of its 300,000 residents are from the Dominican Republic, the largest single concentration of Dominicans in the United States.

Neighborhood Trust FCU is housed in an abandoned Chemical Bank branch at the New York Port Authority that had been vacant for five years. The credit union's entire staff is bilingual, including Levine-Suarez. He attributes much of its early lending

success to education, education and more education, and the impressive fact that nearly all 12 residents who make up the board of directors, supervisory committee, and credit committee have several years of teaching or banking experience. They also share a deep commitment to see their community prosper.

Each credit union member who cannot prove that they previously had a checking account must complete the credit union's personal finance course. It's two hours in the evening. We give them a certificate at the end of the evening," said Levine-Suarez.

In addition, every borrower is started out with a \$500 loan, regardless of the amount they request. This approach, according to Levine-Suarez, helps the member to establish credit. "They may want to buy a house or a car one day. This gets them off on the right foot."

Credit Unions Take Advantage of CDFI Fund Grants

The Treasury Department announced \$75 million in Community Development Financial Institutions (CDFI) awards for 1998. Four low-income designated credit unions received substantial core component awards while 18 other credit unions received smaller technical assistance awards.

Appalachian Development FCU, The Plains, Ohio	\$610,000
Bethex FCU, Bronx, NY	\$460,000
Neighborhood Trust FCU, New York, NY	\$210,000
Northeast Community FCU, San Francisco, Calif.	\$720,000

The technical assistance awards ranged from \$25,000 to \$53,818. Credit unions receiving them are:

Borinquen FCU, Philadelphia, PA
 College Station Community FCU, College Station, AZ
 Comunidades FCU, Los Angeles, CA
 Demopolis FCU, Demopolis, AL
 Enterprise Community FCU, Las Vegas, NV
 First Combined Community FCU, Landover, MD
 Genesse Co-Op FCU, Rochester, NY
 Kekaha FCU, Kekaha, HI
 Lower East Side People's FCU, New York, NY
 New Horizons Community FCU, Philadelphia, PA
 Northside Community FCU, Chicago, IL
 O.U.R. FCU, Eugene, OR
 Progressive Neighborhood FCU, Rochester, NY
 Quitman County FCU, Marks, MI
 Roberto Clemente FCU, Bronx, NY
 St. Charles Borromeo FCU, New York, NY
 Stillman Community Development FCU, Tuscaloosa, AL
 Union Settlement FCU, New York, NY



Will Your Credit Union Be Y2K Ready?

As we approach 1999 and the countdown to the century mark, how are credit unions progressing toward meeting the challenges of Year 2000 compliance?

"Very well," according to Dave Marquis, director of NCUA's Office of Examination and Insurance, noting that 90 percent of credit unions have consistently rated satisfactory during the first three stages of Y2K compliance reviews: Assessment, Renovation and Testing.

"Earlier this year, I did not feel so good. But a lot has changed regarding the awareness and preparation of both credit unions and examiners to the challenges of making necessary computer upgrades to critical systems," says Marquis. "My staff and I participate in at least eight Y2K presentations each month. They are completely filled," he says.

It helps that the majority of credit unions are small; 65 percent have assets of \$10 million and under, 50 percent have assets under \$5 million. Despite some misleading stories that indicated smaller credit unions may have more trouble with Y2K compliance than large institutions, Marquis says their task is much simpler.

"The good story is that small credit unions are very vendor dependent. They do not have many interfaces, primarily a share and loan system. If they have problems, the issue will likely be the hardware," according to Marquis. "Does it work? Does it need upgrading? The bad news is they may have to buy new hardware, but PCs are not expensive today. It can be that simple," Marquis explains.

Use Examiners as a Y2K Resource

Marquis stresses that because NCUA examiners on average regularly visit 15 to 20 credit unions of various sizes, credit union staffers should use that experience to their advantage. "I tell credit unions, talk to your examiner. The examiners can benefit them because during their travels they see areas where some credit unions are struggling, but they also see where other credit unions have found innovative ways to resolve a set of problems. All of that experience should be recycled," says Marquis.

As most credit unions are now moving out of the renovation phase and into testing and implementation, the next issue they should be turning their attention to is liquidity needs, says Marquis.

"As they become fully compliant, member awareness becomes a real issue," he says. "Credit unions need to prepare their customer support staff to know how to answer member questions, or know who to refer them to get those answers. And credit unions need to line up their borrowing sources now so they don't fall short at the end of the day."

A reminder of the most critical remaining Year 2000 milestones:

RENOVATION PHASE	09/30/98
Starting in early 1998, renovate, upgrade, or replace critical systems.	
Complete renovation of critical systems and begin testing.	01/31/99
VALIDATION/TESTING PHASE	08/31/98
Begin Y2K compliance testing for all critical systems that have been renovated or replaced. Critical systems are ready for implementation.	
Demonstrate progress in Y2K compliance testing and that critical systems will be ready for implementation.	12/31/98
Complete final Y2K compliance testing and ready for implementation.	06/30/99
IMPLEMENTATION PHASE	07/31/99
Implement all critical systems.	

Liquidity Planning for Y2K

Ensuring your credit union has sufficient cash available between the 4th quarter of 1999 and 1st quarter of the Year 2000 is an essential part of Year 2000 readiness planning. As the Year 2000 approaches, some of your members may feel the need to have extra cash on-hand. Credit unions must plan now for the possibility of a decline in liquidity and increase in cash resources.

Member education is the first step in liquidity planning - ensure your members understand the steps you have taken to make their credit union Year 2000 ready. Combat other sources of information members may receive on the Year 2000, with factual information on their credit union. The NCUA Year 2000 Date Change Credit Union Member Brochure is an excellent first step in communicating with your members - the brochure was distributed to all federally insured credit unions under letter 98-CU-15 and is also available on our Web Site (www.ncua.gov).

Developing a Liquidity Plan is the second step in planning for Year 2000 Liquidity. A Liquidity Plan should address, at a minimum, the following aspects of Year 2000 Liquidity:

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Planning for Y2K

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- An analysis of your potential liquidity needs. Such an analysis would include, at a minimum, a review of the credit union's current monthly cash flow including an estimate of the impact of increased member withdrawals - *i.e. what would happen if 75% of your membership withdrew an extra \$500 in December of 1999? How would you manage this on your balance sheet?*
- A review of funds which will become available during 1999.
- A review of investments which could be sold prior to maturity - should these investments be sold now, rather than later when prices may be steeply discounted due to a greater number of sellers in the market than buyers?
- A review of current loan demand and a projection of loan demand during 1999 - do you have any loan promotions planned for 1999; if so, will there be sufficient liquidity to fund those promotions?
- Sources of funds - do you have at least one line of credit established? How much of a line of credit should you have available? How will it be accessed? What will it cost to access or arrange for a line of credit?
- An analysis of the amount of actual cash on-hand needed during the 4th quarter of 1999 and 1st quarter of the Year 2000. Is the rating of your vault/safe sufficient for an increased amount of cash? Will the credit union's bond cover an increased amount of cash; if not, can you arrange for increased coverage.

Planning for Year 2000 Liquidity involves basic Asset/Liability Management geared towards estimating your members' behavior in relation to their potential Year 2000 concerns. It is essential that credit unions plan now, as investment, lending and other financial decisions made today, may have an impact on your liquidity position during the 4th quarter of 1999 and the 1st quarter of the Year 2000.

MANAGEMENT CHANGES

Mike McGuire and Owen Cole Fill New Roles at NCUA

- **Michael P. McGuire** is the interim associate Region II director of Operations (ARDO)
- **J. Owen Cole** is the new division director of Risk Management and vice president of the Central Liquidity Facility in the Office of Examination and Insurance.

Michael P. McGuire began serving a 90-day detail in Region II as the ARDO in mid November. He brings many years of experience at this post to Region II as manager of in-house staff and operations.

Mike McGuire has been with NCUA since joining the agency as an examiner in 1970, except for a brief separation in 1983. He became a supervisory examiner in 1987 and has served in Region IV as both assistant regional director of operations and of programs since 1990.

David Hibshman will cover both associate regional director positions in Region IV until McGuire completes his temporary assignment in early 1999.

J. Owen Cole assumes his first permanent management position at NCUA with this appointment.

As director of Risk Management effective November 23, Cole oversees NCUA's special assistance program and call report data collection and analysis. As Central Liquidity Facility (CLF) vice president, he manages the daily operations of the CLF.

Owen Cole joined NCUA in 1993 as an investment officer in the Office of Investment Services (OIS). Previously, he worked ten years for Riggs Bank in Washington, moving up the ranks from a market trader to a vice president. Cole became a senior investment officer at NCUA in 1997 and served a brief stint as acting OIS director earlier this year.

Herb Yolles remains president of the Central Liquidity Facility in addition to his recent appointment to deputy director of the Office of Examination and Insurance.

Third Quarter Growth Figures

Assets in federally insured credit unions over \$50 million grew an annualized 7.2 percent, increasing from \$263.6 to \$282.6 billion from Dec. 31, 1997, to September 30, 1998, according to quarterly call reported data submitted to NCUA.

Total loans grew 5.2 percent, from \$174.1 to \$183.2 billion in the nine month time frame. The 1,342 credit unions that submitted third-quarter data to NCUA held the majority of their loans in three categories:

- \$50.7 billion in 1st mortgage real estate loans,
- \$34 billion in new car loans; and
- \$33 billion in used car loans

Real estate and used car loans made the most significant gains in the lending sector while corporate credit unions picked up a substantial 27 percent increase in investment deposits. First mort-

gage real estate loans picked up the largest gain, 14.2 percent. Used auto loans followed with an 11.2 percent increase.

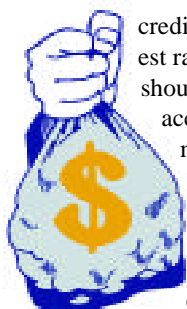
Savings in large credit unions grew 6.8 percent, increasing from \$231 to \$246.7 billion. Among the major deposit categories, the most significant growth was in money market shares, which increased 16.1 percent, up from \$28.8 to \$33.5 billion. Share certificates increased 8.4 percent, up from \$60.9 to \$66 billion.

The largest category, regular shares gained 4.3 percent, increasing from \$82 to \$85.6 billion.

The net capital ratio increased from 10.7 to 10.8 percent and the delinquency ratio declined from 0.8 to 0.7 percent. The loan to share ratio declined from 75.4 to 74.2 percent because share growth in these large, federally insured credit unions outpaced the loan growth rate.

ABOUT INVESTMENTS

Access Interest Rate Risk with Consistency Accuracy Transparency



Regardless of how your credit union measures interest rate risk, the process should be consistent, the accuracy of the measurement understood, and the users of the information informed of the level of consistency and accuracy.

Consistency means that credit union management should prepare interest rate risk information for the board the same way every time. When changes are made, management should present data in the old format and the new format, and explain the changes to the reports. In this way, it is clear when changes in the credit union's risk profile are due to changes in the balance sheet or market conditions, rather than changes in how the reports were prepared.

Accuracy addresses how fully and closely reports reflect the actual interest rate risk. Management should know the strengths and weaknesses of the interest rate risk reports. For example, a single interest rate scenario used to project the timing of cash flows probably is not realistic under a different interest rate scenario.

Transparency means that management provides the board with an explanation of how much reliance should be placed on the interest rate risk reports and information regarding material positions in assets and liabilities that are not well measured in the reports.

If you have questions about this or other investment-related subjects, feel free to call NCUA's Investment Hotline at 1-800-755-1030.



NCUA Chairman Norman D'Amours joined United States Treasurer Mary Ellen Withrow (at right) and Ellen Lazar, administrator of the Treasury Department's CDFI Fund (far right), in congratulating Mark Levine-Suarez, board president of Neighborhood Trust FCU, in New York city. The credit union received a \$210,000 award from the federal CDFI fund. Full story is on page 5.

Investment News Added to Web Site

NCUA has added — **Investment Watch** — to its web site to offer brief guidance on specific investment and balance sheet management. This information has been provided to NCUA examiners and staff for some time, so the initial section includes the information distributed between January 1996 and September 1998.



Find Investment Watch at
www.ncua.gov/ref/investment/investment.html

NCUA News

National Credit Union
Administration
1775 Duke Street
Alexandria, VA 22314-3428

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